

Message Text

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TAGS, EFIN, FR

SUBJECT: THE GOF 1976 BUDGET: QUESTIONS OF PURPOSE AND
TIMING

1. SUMMARY. AS REPORTED IN ECONOMIC TRENDS REPORT
(REF. A-249, 6/3/75) CURRENT GOF ECONOMIC POLICY IS
MORTGAGED TO ASSESSMENT CURRENT RECESSION AT OR NEAR
BOTTOM. DECISION TO REJOIN EC "SNAKE" IN EFFECT WAS
SECOND MORTGAGE ON THIS ASSESSMENT (REF. PARIS 18440).
WITH GROWING EVIDENCE OF CONTINUED SLIDE (REF. PARIS
18087) PRESS ARTICLES PROBABLY OFFICIALLY INSPIRED
SUGGEST THAT THE BUDGET FOR 1976 COULD BE CHANGED TO
COUNTER THE RECESSION. AS OF NOW 1976 BUDGET ENVISIONS
A NOMINAL GLOBAL EXPENDITURE INCREASE OF 13 PERCENT,
REPRESENTING CONTINUED RESTRAINT AS THIS INCREASE WOULD
BARELY COMPENSATE FOR INFLATION FROM FY 75 TO FY 76
AND WOULD NOT PRODUCE FISCAL DEFICIT, UNLESS ACCOMPANIED
BY TAX REDUCTION. 1976 BUDGET DECISIONS WILL BE TAKEN
FOLLOWING FRANCO-GERMAN CONSULTATIONS JULY 25. END
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SUMMARY.

2. WITH GROWING CONSENSUS THAT NO SUSTAINABLE UPTURN IN FRENCH ECONOMY POSSIBLE UNTIL MID-1976, GOF HAS BEGUN TO PUBLICIZE 1976 BUDGET, EMPHASIZING INCREASES IN PARTICULAR SECTORS, AND IMPLYING SUFFICIENT MEASURES TO ASSURE ECONOMIC STABILITY. APART FROM SUBSTANTIAL INCREASES IN EDUCATION; POST, TELEGRAPH AND TELEPHONE; AND POLICE, THE OVERALL PRELIMINARY BUDGET INCREASE REMAINS A MODEST 13 PERCENT, JUST SUFFICIENT TO COMPENSATE FOR INFLATION WITH PERHAPS A 2 PERCENT REAL INCREASE AND NO INCREASE IN THE DEFICIT, UNLESS TAXES ARE REDUCED.

3. IF FISCAL STIMULUS IS CONSIDERED NECESSARY GOF PROBABLY WILL OPT FOR EITHER TAX REDUCTION, POSSIBLY TVA BUT MORE LIKELY INCOME TAX FOR LOWER INCOMES, OR A PLAN ALREADY IN PLACE TO SUBSIDIZE WAGES FOR NEW EMPLOYEES, PARTICULARLY FOR JOB APPLICANTS JUST ENTERING THE LABOR MARKET, THEREBY ALLEVIATING GROWING CONCERN ABOUT UNEMPLOYMENT AMONG THE YOUNG.

4. THERE IS HEAVY DOSE OF PR TREATMENT IN CURRENT BUDGET DISCUSSIONS. GIVEN KNOWN DESIRE BY GOF OFFICIALS TO LAG RECOVERY IN FRG, U.S. AND JAPAN, GOF OFFICIALS WILL BE OBLIGED TO PUT ON A GOOD SHOW AND TO STRESS RELATIVE STABILITY AND EXTERNAL BALANCE AS POSITIVE ACHIEVEMENTS, WHILE DISPLAYING A SERIES OF MEASURES DESIGNED TO MEET CONCERNS ABOUT UNEMPLOYMENT AND LOW LEVEL OF ECONOMIC ACTIVITY FOR REMAINDER OF 1975.

5. IF OFFICIAL ASSESSMENT OF FRENCH ECONOMY NOTED IN SUMMARY IS CORRECT, THIS STRATEGY COULD WORK, BUT WITH INCREASING EVIDENCE THAT GOF ESTIMATES MISSED BOTH TIMING AND EXTENT OF DOWNTURN SOME FAST ACTING FISCAL STIMULUS SEEMS VERY LIKELY THIS FALL. GOF SEEMS TO PREFER SERIES OF SELECTIVE MEASURES, POSSIBLY TO BE ANNOUNCED IN A SERIES OF GISCARD "FIRESIDE" CHATS IN ORDER TO ACHIEVE MAXIMUM PR EFFECT WHILE STILL PRESERVING SCOPE FOR NOTING IMPORTANCE AND ACHIEVEMENT IN SPHERES OF RELATIVE STABILITY AND EXTERNAL BALANCE. LIMITED OFFICIAL USE

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THE EXTENT OF THE POSSIBLE FY 76 FISCAL DEFICIT REMAINS MOOT BUT SOURCES AT FINANCE MINISTRY AND BANK OF FRANCE SUGGEST IT WILL BE RELATIVELY MODEST. THEY ACKNOWLEDGE THAT FRANCE CURRENTLY HAS THE MOST CAUTIOUS MONETARY AND FISCAL POLICY OF ANY INDUSTRIAL COUNTRY AND IMPLY A DESIRE TO KEEP IT THAT WAY.

6. OFFICIALLY INSPIRED BUDGET PRESS ARTICLES COULD ALSO

REFLECT RESPONSE TO RECENT EC HEADS OF GOVERNMENT DECISION TO CONCERT FISCAL POLICIES OF NINE TO REVIVE ECONOMIES. NEXT PHASE WILL BE FRANCO-GERMAN DISCUSSIONS JULY 25. DETAILED ANALYSIS FY 76 BUDGET WILL BE SENT WHEN FIGURES AVAILABLE.
GAMMON

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